

April 2, 2012

To the Honorable Board of Supervisors
County of Los Angeles, California

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the County of Los Angeles, California (County) for the year ended June 30, 2011. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards* and OMB Circular A-133, as well as certain information related to the planned scope and timing of our audit. Professional standards also require that we communicate to you the following information related to our audit.

Our Responsibilities under U.S. Generally Accepted Auditing Standards and OMB Circular A-133

Our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

In planning and performing our audit, we considered the County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

As part of obtaining reasonable assurance about whether the County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also in accordance with OMB Circular A-133, we examined, on a test basis, evidence about the County's compliance with the types of compliance requirements described in the "U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement" applicable to each of its major federal programs for the purpose of expressing an opinion on the County's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on the County's compliance with those requirements.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the County are described in Note 1 to the financial statements. The County adopted the following accounting pronouncements during the fiscal year 2011:

- GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. This statement enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied, and it clarifies the existing governmental fund type definitions. It establishes fund balance classifications that comprise a hierarchy based primarily on the

extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds.

- GASB Statement No. 59, *Financial Instruments Omnibus*. The statement updates and improves existing standards regarding financial reporting and disclosure requirements of certain financial instruments and external investment pool. Except for LACERA, GASB 59 did not have an impact to the County's pooled and other investments.

Except as noted above, the application of existing accounting policies was not changed during the fiscal year 2011. We noted no transactions entered into by the County during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

- Accrual and disclosure of claims liabilities
- Contractual adjustments and allowances for uncollectible amounts for patient accounts receivable
- Depreciation estimates for capital assets and infrastructures assets
- Fair value of investments

Management's estimates were based on the following:

- The liability for workers' compensation and long-term disability claims were based on actuarial valuations. General liability, automobile and medical malpractice liability claims were based on historical loss and other data.
- The liability for other claims was determined by County Counsel and attorney judgment about the ultimate outcome of the claims.
- Estimated contractual adjustments were based on prior cost report adjustments, previous regulatory settlements, and the potential future retrospective adjustments based on current laws and regulations.
- Estimated allowances for uncollectible amounts for patient accounts receivable were based on historical loss levels.
- Useful lives for depreciable capital assets and infrastructure were determined by management based on the nature of the asset. The County uses the straight-line method of depreciation.
- The fair value of investments was based on quoted market prices and pricing models.

We evaluated the key factors and assumptions used to develop these accounting estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosure affecting the financial statements was:

- The disclosure of Pension Plan in Note 7 to the financial statements related to the pension plan administered by LACERA.
- The disclosure of Other Postemployment Benefits (OPEB) in Note 8 to the financial statements related to the OPEB plan administered by LACERA.
- The disclosure of Hospital and Other Program Revenues in Note 13 to the financial statements related to hospital funding sources.

- The disclosure of Commitments & Contingencies in Note 16 to the financial statements related to Community Development Commission – Redevelopment Agency.
- The disclosure of Risk Management in Note 17 to the financial statements related to the County’s exposure to third party claims.
- The disclosure of Extraordinary Item – Discretely Presented Component Unit in Note 20 to the financial statements related to First 5 LA.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. The attached schedule summarizes corrected and uncorrected misstatements of the financial statements. Management has determined that the effects of uncorrected misstatements are immaterial both individually and in the aggregate, to the financial statements taken as a whole. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor’s report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated December 15, 2011.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a “second opinion” on certain situations. If a consultation involves application of an accounting principle to the county’s financial statements or a determination of the type of auditor’s opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the County’s auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the Board of Supervisors and management of the County and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,



Macias Gini & O'Connell LLP

County of Los Angeles
Summary of Uncorrected Misstatements - Government-Wide
June 30, 2011

<u>Description</u>	<u>Balance Sheet</u>		<u>Income Statement</u>	
	Debit	Credit	Debit	Credit
1 Interest Receivable	\$ 2,204,000	\$	\$	\$
Pooled Cash & Investments		2,204,000		
<i>To reclassify accrued interest purchased from pooled cash and investments to interest receivable</i>				
2 Deferred Charges - Governmental activities	1,625,000			
Deferred Charges - Business type activities	2,237,000			
Governmental Expenses				1,625,000
Hospital Expenses				2,237,000
<i>To properly reclassify cost of issuance of Multi-Cap Project Bond 2010 series</i>				
3 Miscellaneous Revenue - Business-type activities			11,746,000	
Premium on Bonds Issuance - Business-type activities		11,746,000		
<i>To reclassify premiums on issuance of Multi-Cap Project Bond 2010 series from Misc. Revenue to Premium on bonds issuance</i>				
	<u>\$ 6,066,000</u>	<u>\$ 13,950,000</u>	<u>\$ 11,746,000</u>	<u>\$ 3,862,000</u>

County of Los Angeles
Summary of Uncorrected Misstatements - Fund Based
June 30, 2011

<u>Description</u>	<u>Balance Sheet</u>		<u>Income Statement</u>	
	Debit	Credit	Debit	Credit
1 Net Patient Service Revenue	\$	\$	\$	2,601,893
Accounts Receivable		2,601,893		
<i>To reverse the following revenue items for Rancho Los Amigos :</i>				
<i>- \$1.3 million FMAP due to error in rate used</i>				
<i>- \$0.8 million of provider fees (6 months)</i>				
<i>- \$0.5 million reduction in HMCRS as a result of actual</i>				
<i>subsequent collection</i>				
2 Miscellaneous Revenue - Olive View			1,918,000	
Miscellaneous Revenue - Harbor - UCLA			9,828,000	
Premium on Bonds Issuance - Olive View		1,918,000		
Premium on Bonds Issuance - Harbor UCLA		9,828,000		
<i>To properly reclassify bond premiums on issuance of Multi-Cap</i>				
<i>Project Bond 2010 series.</i>				
3 Deferred Charges - Olive View	393,000			
Deferred Charges - Harbor UCLA	1,844,000			
Interest Expense - Olive View				393,000
Interest Expense - Harbor UCLA				1,844,000
<i>To properly reclassify cost of issuance on Multi-Cap Project Bond</i>				
<i>2010 series</i>				
	\$ <u>2,237,000</u>	\$ <u>14,347,893</u>	\$ <u>14,347,893</u>	\$ <u>2,237,000</u>